FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

October 5, 2004

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP04-585-000

Northern Natural Gas Company
1111 South 103rd Street
Omaha, NE 68124

Attention: Dari R. Dornan, Senior Counsel

Reference: Order Granting Limited Waiver

Dear Ms. Dornan:

1. On August 31, 2004, Northern Natural Gas Company (Northern) filed a petition for limited waiver of Northern's FERC Gas Tariff in order to allow Firm Deferred Delivery (FDD) shippers to use the imbalance-to-storage option for resolving imbalances during the period of August 25, 2004 through September 30, 2004.

2. On April 1, 2004, as part of Northern's rate case proceeding in Docket No. RP03-398-000, Northern placed into effect an imbalance-to-storage tariff provision as part of Section 32 (Balancing) of the General Terms and Conditions (GT&C) of Fifth Revised Volume No. 1. This tariff provision, reflected on Sixth Revised Sheet No. 269, gives transportation customers who have also contracted for FDD or Interruptible Deferred Delivery (IDD) service[1] a monthly option to resolve their transportation imbalances by placing their imbalances into their Rate Schedule FDD or IDD (interruptible) storage accounts on a volumetric basis and thus avoid the effects of the high/low cash-out pricing provisions of the tariff.[2] The tariff also provides that the imbalance-to-storage provision

[1] FDD service is a firm storage service and IDD service is an interruptible storage service.

[2] High/low cash-out pricing refers to one of three methods Northern uses to correct monthly transportation imbalances. For volumetric imbalances where a shipper's monthly deliveries exceed a shipper's monthly receipts, the shipper owes Northern the
(continued…)

is not available on days when Northern is allocating storage during the Intra-Day 2 nomination cycle (in other words, when Northern is unable to schedule all nominated storage injections).

3. Northern states that on August 25, 2004 it began allocating storage capacity among shippers for all IDD injections that caused a positive storage inventory. Northern states that this allocation was implemented for two reasons. First, IDD shippers injected larger than anticipated storage inventories into their IDD accounts, which appears to be a result of seasonal price spreads. Second, Northern states that its Lyons storage facility experienced a *force majeure* situation in mid-August, which hindered its injection capability for two weeks, further exacerbating Northern's storage inventory situation. Northern states that it has been and anticipates continuing to allocate IDD storage because the inventories in Northern's storage fields are projected to be at full capacity by the end of this period. Northern claims these inventory projections include an allowance for the FDD shippers to fill their account balances to their contractual inventory levels. Therefore, Northern contends that it is contractually and physically appropriate to allow the FDD shippers to continue to use the imbalance-to-storage option to fill their storage accounts during this period up to their contracted level, whereas it is not appropriate to allow IDD shippers to inject any unplanned volumes. To maintain the maximum amount of shipper flexibility and to maximize the service availability related to imbalance resolution alternatives, Northern requests limited waiver of its tariff to offer the imbalance-to-storage option only to FDD shippers, subject to the shippers' FDD contract provisions.

4. Notice of Northern's filing was published in the *Federal Register*,[3] with comments, protests, or interventions, as provided in section 154.210 of the Commission's regulations, due on or before September 21, 2004. Pursuant to Rule 214 (18 C.F.R. § 385.214), all timely filed motions to intervene and any motions to intervene out-of-time filed before the date this order issues are granted. Virginia Power Energy Marketing, Inc. (VPEM) filed to intervene, protest, and request rejection of Northern's request for limited

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volumetric difference multiplied by the applicable high market area index price. The high market index price is equal to the arithmetic average of the highest average weekly price occurring within a five-week period at price discovery points occurring on Northern's system as appearing in "Gas Daily." For volumetric imbalances where a shipper's monthly receipts exceed a shipper's monthly deliveries, Northern owes the shipper the volumetric difference multiplied by the applicable low market area index price. The low market index price is equal to the arithmetic average of the lowest average weekly price occurring within a five-week period at price discovery points occurring on Northern's system as appearing in "Gas Daily."

[3] 69 *Fed. Reg.* 56423 (2004).

waiver. Northern States Power Company and Northern States Power (the NSP Companies) filed jointly to intervene in support of Northern's waiver request.

5. VPEM contends that specific Commission approval for a waiver of the tariff is required, but such a waiver is not justified here. VPEM submits that while it might be appropriate to permit Northern to continue to provide imbalance-to-storage for FDD shippers in the case of a truly unusual, one time event, Northern has presented no evidence that the operating conditions are in any way unique, or that the situation is unlikely to reoccur. VPEM claims that, to the contrary, Northern's storage fields are full or nearly so every year during this period. Thus, VPEM states that what Northern faces is a perennial problem, which would require a permanent solution in the form of a tariff revision.

6. Further, VPEM states that one of the tariff changes sought by Northern as part of Northern's rate case proceeding in Docket No. RP03-398-000 involved a major overhaul to its cash-out imbalance management program. VPEM submits that the general availability of IDD service in principle allows all of Northern's shippers, not just those holding FDD service entitlements, to avail themselves of the imbalance-to-storage option. VPEM states similarly, all of Northern's shippers are exposed to the weekly high/low cash-out mechanism. VPEM claims the idea that during some parts of the year shippers holding FDD entitlements would have access to the full imbalance management portfolio, while shippers relying on IDD would not, was not contemplated by the Commission or the parties during the course of Northern's rate case proceeding. VPEM contends that Northern should not now be permitted to bootstrap its way out of commitments that it has made simply because it has discovered on further reflection that certain of these commitments are inconvenient or otherwise undesirable. VPEM states that, alternatively, perhaps it is appropriate under the circumstances to waive both the allocation provisions of the imbalance-to-storage option for FDD shippers and the weekly high/low cash-out provision for everyone else.

7. The NSP Companies state that the purpose of the storage allocation provision is to prevent shippers from injecting or withdrawing from their FDD or IDD storage accounts when there is insufficient daily storage capacity to accommodate all daily nominations. However, the NSP Companies claim that Northern's inventory projections include an allowance for FDD shippers, such as the NSP Companies, to fill their account balances to their contractual levels. The NSP Companies contend that the fact Northern may have some allocation days during the period covered by the waiver does not provide a basis for limiting the ability of a firm shipper to use FDD service to resolve transportation imbalances.

8. Northern has shown good cause for its limited waiver to allow FDD shippers to use the imbalance-to-storage option to resolve imbalances during the period of August 25, 2004, through September 30, 2004. The waiver will provide these firm

customers the right to use their FDD storage service up to their firm contractual entitlements to resolve imbalances through Northern's imbalance-to storage mechanism, even though interruptible storage service under Rate Schedule IDD is being allocated.

9. Section 32.F. of Northern's GT&C is entitled "Resolution of Imbalances." Under the provisions of this section, Northern and Shipper shall eliminate any imbalance by using the following three resolution mechanisms set forth in this section of Northern's tariff: (i) monthly imbalance trading; (ii) monthly cash-out/in; and (iii) monthly imbalance-to-storage.

10. Section 32.F.(iii) "Monthly Imbalance-to-Storage" states: "[t]he ability to use the imbalance to storage mechanism is subject to the storage parameters of the shipper's applicable deferred delivery agreement(s) (either FDD or IDD) and transportation provisions thereunder." In addition, this section states: "[o]n storage allocation days or when storage parameters do not allow the use of the shipper's storage account, imbalances must be resolved using either resolution mechanism (i) or (ii) above."

11. Northern is requesting a limited waiver for only one of the two instances in the above tariff provision which would limit the use of the imbalance-to-storage balance mechanism. Northern requests only a waiver of that part of the provision that prohibits shippers to use this balancing mechanism on storage allocation days. Northern's storage allocation provision in its tariff prevents shippers from injecting or withdrawing from their FDD or IDD storage accounts when there is insufficient daily storage capacity to accommodate all daily storage nominations. Northern has not requested waiver of the prohibition on using the imbalance-to-storage option when the storage parameters of a FDD or IDD shipper's applicable delivery agreements do not allow the use of the storage account. Both Northern and the NSP Companies have stated that even during periods of allocation, Northern's storage projections include an allowance for the FDD shippers to fill their account balances to their contractual inventory levels. Thus, even during periods of allocation, the storage parameters of FDD shippers' deferred delivery agreements would allow shippers to use their storage accounts, and there would be sufficient daily storage capacity to accommodate FDD shippers' daily storage nominations. Therefore, the Commission agrees with Northern's contention that it would be both contractually and physically appropriate to allow FDD shippers to continue to use the imbalance-to-storage option to fill their storage accounts during this period up to their contracted storage inventory levels.

12. We find VPEM's comments, that during the course of Northern's rate case proceeding neither the Commission nor the parties had any idea that during some parts of the year shippers holding FDD entitlements would have access to the full imbalance management portfolio while shippers relying on IDD would not, is not germane to the requested waiver. We likewise find VPEM's suggestion that, if Northern waives the imbalance-to-storage option for FDD shippers, it should waive the weekly high/low cash-

out provision for everyone else, is not on point. The overriding fact is that during periods of storage allocation, FDD customers continue have the contractual right to fill their storage accounts up to their contracted storage inventory level, whereas IDD shippers do not. The limited waiver permits those shippers having a firm contractual right to continue to use storage to have a priority over interruptible storage customers, so that the firm storage customers can continue to use storage for balancing purposes. The waiver is consistent with the firm nature of the FDD customers' service, and does not harm IDD shippers, as they do not have the same contractual rights to fill their account balances during periods of allocation.

13. We are not persuaded by VPEM's assertion that Northern has not justified its waiver. Northern satisfactorily explained its need to allocate storage resulting from IDD shippers injecting larger than anticipated storage inventories into their IDD accounts, and a *force majeure* situation in mid-August at its Lyons storage facility which hindered injections. In addition, as discussed above, Natural satisfactorily explains why its waiver is appropriate for only FDD shippers. However, we do recommend that if Northern anticipates a need to request a waiver of its tariff regarding similar circumstances in the future, Northern should consider filing permanent tariff language to cover this situation.

By direction of the Commission.

Magalie R. Salas,
Secretary.

cc: All Parties

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